

STATEMENT OF BRUCE PETERSON
SENIOR VICE PRESIDENT AND GENERAL MERCHANDISING MANAGER
WAL-MART STORES, INC.
BEFORE THE
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES

June 26, 2003

Good morning, Mr. Chairman and members of the Committee, my name is Bruce Peterson and I am the Senior Vice President and General Merchandising Manger of Wal-Mart Stores, Inc. Based in Bentonville, Arkansas, Wal-Mart is the nation and world's largest retailer, with facilities in all 50 States and 10 countries. The Company operates more than 2,870 discount stores, Supercenters, Neighborhood Markets and more than 520 SAM'S CLUBS in the United States. Internationally, the Company operates in Argentina, Brazil, Canada, China, Germany, Korea, Mexico, Puerto Rico and the United Kingdom. Wal-Mart also owns a 31% interest in Seiyu in Japan with options to purchase up to 66.7% of that company. Wal-Mart employs more than 1 million associates in the United States and more than 300,000 internationally.

As a major portion of our business focuses on the marketing of food, I would like to share Wal-Mart's perspective regarding country of origin labeling. This law requires retailers to inform consumers of the country of origin of all "covered commodities"¹ – both domestic and imported – as of September 30, 2004. Wal-Mart believes that marketing high quality, affordable food made in the U.S.A. is essential to our customers' needs. However, despite the law's best intentions, it is fundamentally flawed inasmuch as it diverts retailers from marketing and places the onus on product labeling and information validation. We believe that there is a better method to promote U.S. agriculture than implementing a flawed law with unduly burdensome regulations.

¹ "Covered commodities" include beef, pork and lamb (whole muscle cuts and ground); fresh frozen fruits and vegetables; fresh and frozen seafood and shellfish (for which the method of production must also be specified); and peanuts. A covered commodity that is "an ingredient in a processed food product" is not subject to country of origin labeling; if there is any question about the status of your product, we will need a determination from USDA regarding whether or not COL applies.

I would first, however, like to discuss the importance of Wal-Mart's relationship with our customers and our suppliers which directly relates to how we build trust and confidence in our supply chain. At Wal-Mart, we have worked with our suppliers to create and protect our relationship with our customers. They are, and will continue to be, the guiding force behind our decisions. Because of their comments, we have created stores that offer every day low prices ("EDLP"), quality merchandise, wholesome and safe food products in addition to fast and friendly service. Our one million U.S. associates are also involved with individuals and families in their respective communities. Last year alone, our associates raised and contributed more than \$200 million to support communities and local nonprofit organizations. We aspire to be an important part of our customers' communities and to provide products and services that raise the standard of living for the working families of America. This includes providing safe, quality, affordable food to feed those families.

With respect to our suppliers in the food industry, Wal-Mart has been reported as the nation's largest grocer with 1333 Supercenters (retail and full-line grocery) and 52 Neighborhood Markets (grocery). We highly respect the relationships that we have built with the agricultural communities who supply our stores. Over the years, we have also established strong partnerships with State Departments of Agriculture to market key state products. A few produce examples include: radishes, squash and corn from the State of Ohio²; grapefruit, oranges tangerines and avocados from the State of California³; tomatoes, watermelons, oranges and cucumbers from the State of Florida⁴; and onions, mushrooms, and berries from the State of Texas⁵.

We also maintain well over a thousand relationships with local growers in order to bring "hometown" produce to the local Wal-Mart outlet. Because of our near symbiotic relationship, the continued financial health and success of our suppliers is directly linked to our ability to provide EDLP food products to our consumers. Any overzealous regulations or laws which unduly burden our suppliers, many of whom are small and medium-sized enterprises, ultimately provides a disservice to our customers.

² Liana Lee, Marketing Specialist, Ohio Department of Agriculture.

³ Oscar Hidalgo, Marketing Specialist, California Department of Agriculture.

⁴ Kim Lay, Marketing Specialist, Florida Department of Agriculture.

⁵ Jim Jones, Marketing Specialist, Texas Department of Agriculture.

Implementation Challenges

At Wal-Mart, we value our customers and suppliers and that is why we are so concerned about the Farm Security and Rural Investment Act of 2002. As stated above, the law as it stands, requires retailers to both label and verify the country of origin of all “covered commodities” – both domestic and imported – as of September 30, 2004. While this may seem a while away, recent regulations promulgated by the U.S. Department of Agriculture (USDA) during the voluntary period are already beginning to impact our supply chain. We understand that the USDA has hosted a series of field hearings to solicit comments about implementation. Proponents of the law continue to claim that problems with country of origin are regulatory rather than legislative; but we would disagree. While the regulations are excessively burdensome, and will no doubt be revised, they pale in comparison to the law’s fundamental requirement that retailers properly identify products for our customers.

In order to better prepare for the anticipated impact and recognizing the extent of preparation necessary to implement such a program, I coordinated a meeting with over 700 of Wal-Mart’s key suppliers in February to discuss the steps necessary to comply with the law and the proposed guidelines. What many in that room did not realize is that under the proposed guidelines, the required “country of origin” goes beyond the simple classification of country. Rather, the declaration extends back to the farm or ranch where the food originated and must reflect all countries where subsequent processing occurred. The law then requires retailers to provide our consumers with information. Retailers face penalties of up to \$10,000 if the information is missing or inaccurate – even though our suppliers are the only ones who can verify the information.

Because customer trust is our top priority in providing quality, safe, affordable food products, we felt that it was necessary to take steps to ensure that the country of origin information provided by our suppliers for each of the covered commodities is accurate and verifiable. After all with 500 products in 1300 stores, we have over 650,000 opportunities to make a mistake every day not to mention those in the supply chain. Simply put, if someone inadvertently hangs the wrong sign, the result is that the consumer is misled, not informed, making execution of the program untenable.

In order for us to comply with the current regulatory guidelines and to fulfill our responsibility to our customers, Wal-Mart has requested that our suppliers ensure that they are capable and willing to do the following:

1. **Sticker all covered commodities** with country of origin information that fully complies with the federal standards set forth in the statute as interpreted by USDA. A sufficient number of signs (one for each retail display) or stickers (one for each retail-sized package) will be required to accompany every shipment of products that cannot bear labels.
2. **Maintain records and a verifiable audit trail** to establish the accuracy of the country of origin information that we receive for your covered commodity.
3. **Indemnify** us for any fines or other costs that we incur as a result of the country of origin information that you provide or fail to provide.
4. **Segregate** all covered commodities by country of origin throughout the production chain until they are delivered to us and maintain documentation verifying the efficacy of your segregation plan.
5. **Audits.** Provide us with the results of an audit conducted by USDA or another mutually acceptable independent third party to establish that you have the systems in place to ensure the accuracy of the country of origin information that you provide us.

In the interim, so that we may have some assurance that our suppliers will be able to comply with the law in a timely fashion, we have requested that all covered commodity suppliers provide us with a country of origin labeling action plan and Letter of Assurance by September 30, 2003 that states their intent: (1) to provide Wal-Mart with the results of a third party audit of their country of origin labeling programs and (2) to sign a contract with a commitment (a) to reimburse Wal-Mart for any fines or other costs that may incur as a result of the supplier's country of origin declaration and (b) to maintain (and hold suppliers responsible for maintaining) a verifiable audit trail.

The Letter of Assurance must also provide a sample or mock-up of the country of origin label, sign or other mechanism that suppliers provide to us with their products, as well as a description of how that information will be provided, e.g., affixed to every product at a particular rate of adhesive effectiveness; number of signs or labels per box; printed directly on the packaging or product overwrap that apply, etc. It also asks suppliers to describe how they intend to ensure that all necessary information is available in sufficient time to allow us to offer such products to consumers on September 30, 2004 in full compliance with the law.

Wal-Mart believes the steps enumerated above are necessary in order for us to meet the requirements for implementation. And, as you will recall, suppliers who fail to fulfill the law's mandate may also be subject to penalties of up to \$10,000 under the law. Accordingly, supply chain veracity is critical.

Unintended Consequences

There is an emerging consensus that, our current system frequently functions in ways that undermine, rather than strengthen, American competitiveness at home and abroad. Little did we realize that in the case of country of origin labeling what was originally intended as a means to support and promote U.S. agricultural products may turn into a program that (a) hinders U.S. competitiveness, (b) adds an undue financial burden to these same producers and (c) confuses customers resulting in mistrust.

Almost immediately after receipt of this letter, calls from suppliers unaware of the actual ramifications of the law, started to pour in – many of whom, did not realize the extent and cost of implementation. Their testimony at today's hearing is the best indication that some of the best-laid plans have unintended consequences.

Specifically, we are concerned about our small suppliers who may not be able to comply with those requirements that enable us to implement the program. The law simply does not distinguish between large and small operations and could force further consolidation. Wal-Mart would rather promote local products than lose suppliers.

Next we are concerned about the implementation for our suppliers. While the meat industry, except poultry, is required to demonstrate origin on the front end; the produce industry must be cautious on the back – through signing in an ever-changing perishable marketing environment. For example, under this law, one fruit bowl could require 25 different labels depending on the time of year. This is particularly worrisome for American produce growers who have an international interest in marketing their product year round through off-season supplements from foreign markets.

Here, as growing seasons collide, supply intermingles in order to provide customers with consistent product availability. The quality of this year-round supply whether produced in the U.S. or imported is reinforced by adherence to the Administration's food wholesomeness and safety standards. Wal-Mart has worked hard to build year-round markets for perishable commodities for our American producers and these efforts are in jeopardy if the law goes into effect as written. Furthermore, competing signage in stores may very well detract from the produce market promotion efforts we have developed with State Departments of Agriculture.

Our supply chain is equally affected. Under the current regulations agricultural producers must provide information, shippers must maintain separate compartments, our associates in our distribution centers must provide separate storage space, and our store associates must manage a continually changing display of signs as well as maintain voluminous documentation for two years. At each step in this cumbersome process, we move further and further away from our original objective – to promote U.S. agriculture.

From the retail standpoint, disruption in the supply chain is beginning to spawn questions about why some in the food business are not subject to the law. If country of origin is intended to promote U.S. agriculture, how do we tell our customers that while the majority of food products are subject to labeling, others are exempt. Such inconsistencies are certain to shatter consumer confidence.

From a practical standpoint, this system may simply collapse under its own weight.

Conclusion

In summary, we share the view that it is vitally important for Congress to revisit this law in order to allow the marketplace, not the USDA, to implement a successful, voluntary marketing program that works. This will help everyone in the supply chain satisfy our customers and support, rather than hinder, our suppliers – especially those on the farm or ranch. We would also stress that this solution should be applied to all covered commodities on an equal basis to avoid any further inconsistencies that fail to deliver a quality marketing program.

Wal-Mart is an excellent example of how success in the grocery industry directly supports agriculture and agricultural jobs in the United States. We are proud that our relationships with State Departments of Agriculture and local producers to market and promote U.S. agricultural products will only continue to strengthen. As we increase our number of stores overseas, we will continue to provide additional markets for U.S. products sold in our international operations. We look forward to continuing to work with our suppliers on a voluntary basis so that we may continue to bring high quality, low cost, safe food products to our customers – our top priority.

On behalf of Wal-Mart Stores, Inc., I thank you for the opportunity to testify today.